

DEPARTMENT OF MINES, MINERALS AND ENERGY  
DIVISION OF ADMINISTRATION – OFFICE OF FINANCIAL SERVICES  
POLICIES AND PROCEDURES  
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**DEPARTMENT OF MINES, MINERALS & ENERGY  
DIVISION OF ADMINISTRATION – OFFICE OF FINANCIAL SERVICES**

**POLICIES AND PROCEDURES**

**14.0.0        BOND ADMINISTRATION**

**14.1.0        General Policy**

It is the general policy of DMME that a financial record system be maintained to timely and accurately control all bonds furnished by clients including payments into pool bond funds in compliance with federal and state laws and regulations. The financial record system shall provide for timely and accurate reporting of each client's bond status to facilitate DMME personnel in the performance of bond administration duties.

**14.2.0        Definitions and Abbreviations**

**14.2.1        Definitions**

**Bond**

A financial guarantee by or on behalf of a DMME client to provide for the faithful performance of the reclamation of a mine or well site for which a permit was issued to the client by DMME.

**Bond Administration**

Duties involved in the control and the reporting of activities related to bonds, including pool bond funds, received at DMME while they are on deposit with the Treasurer of Virginia or in the custody and control of this agency.

**Cash Bond**

A bond furnished in currency and deposited to the account of the Treasurer of Virginia.

**Certificate of Deposit Bond**

A bond furnished in the form of a Certificate of Deposit issued by a duly licensed financial institution and retained in the custody of DMME.

**Coal Surface Mining Reclamation Fund (0753)**

The fund established to receive fees, taxes, and other revenues from operators of participating permitted coal mines.

**Minerals Other Than Coal (MOTC) Pool Bond Fund**

The fund established to receive cash bonds from operators of permitted minerals other than coal mines.

**Operator**

An individual or a company who has been awarded a permit and/or a license by DMME to operate a mine or a mine related facility, or to drill and/or operate a gas or oil well.

**Surety Bond**

A bond furnished in the form of a written contract between a DMME client and a Virginia licensed insurance/bonding company. A copy of the bond will be retained in the custody of DMME.

**Letter of Credit**

A bond furnished in the form of a written contract between a DMME client and a duly licensed financial institution that are backed by bank assets to support the client's performance bond. A copy of the Letter of Credit will be retained in the custody of DMME.

#### 14.2.2 Abbreviations

<b>ACT</b>	Accountant
<b>AM</b>	Accounting Manager
<b>AS</b>	Accountant Senior
<b>BSG</b>	Big Stone Gap
<b>CARS</b>	Commonwealth Accounting and Reporting System
<b>CC</b>	Contracting Coordinator (Pos. #236)
<b>CD</b>	Certificate of Deposit
<b>DGO</b>	Division of Gas and Oil
<b>DMLR</b>	Division of Mined Land Reclamation
<b>DMM</b>	Division of Mineral Mining
<b>FT</b>	Fiscal Technician (Pos. #39)
<b>FD</b>	Fiscal Director
<b>GLA</b>	General Ledger Account Number
<b>OFS</b>	Office of Financial Services
<b>OSS</b>	Office Services Specialist
<b>RICH</b>	Richmond

#### 14.3.0 Duties and Responsibilities

The **Fiscal Director** shall plan, approve and interpret agency bond administration policies and procedures to be performed by the Office of Financial Services. The **FD** shall direct and coordinate a comprehensive program for the performance of those functions to ensure compliance with the general policy.

The **Accounting Manager** shall establish and monitor agency accounting policies, procedures and internal controls for the administration of client-furnished bonds to ensure that procedures are in compliance with the General Policy and that practices are consistent with procedures. The **AM** shall plan, supervise and monitor the activities of the OFS staff members designated in these procedures to have bond administration duties.

The **Accounting Manager** shall plan, supervise and monitor staff activities in their assigned bond administration functions to ensure efficient and accurate compliance with the General Policy.

The **Accountant Senior** and **Fiscal Technician** shall perform or supervise the performance of others in the annual year-end and interim verifications between bond records and the bond document held in the custody and control of DMME divisions assigned to their respective office.

The **Fiscal Technician** shall have bond administration duties. Under the direction of its supervisor, it shall perform its functions in an accurate, efficient manner, which complies with the General Policy.

The **Office Services Specialist** of the Office of General Services, when necessary, shall assist the **FT** with preparation of the bulk mailing of envelopes and copying of the letters when mailing quarterly notices to Pool Bond participants.

#### 14.4.0 Application of Procedures

These procedures shall direct the handling of all bond administration services as defined under 14.2.1.

#### 14.5.0 Assignment of Bond Administration Duties Between OFS Offices

**OFS-RICH** shall perform the annual audit and verification of bonds held in the custody and control of the Division of Mineral Mining. All other bond administration duties shall be performed by **OFS-BSG** unless otherwise assigned by the **FD**.

#### **14.6.0 Receiving and Routing Bond Related Documents and Inquiries**

##### **14.6.1 Date Stamping of Bond Related Documents Received at OFS**

All bond related documents received from outside **DMME** shall be delivered to the **OFS** for date stamping.

##### **14.6.2 Routing Bond Related Documents at OFS**

After date stamping bond related documents those relating to bond forfeitures shall be delivered to the **ACT** and all others shall be delivered to the **FT** unless otherwise specifically addressed to another person in **OFS**. When an **OFS** staff member receives a bond related document they shall make it available to the **ACT** or the **FT** as appropriate for information and/or processing unless strict confidentiality has been requested by the sender.

##### **14.6.3 Retaining Bond Related Documents at OFS Pending Processing**

The **FA** shall retain all bond related documents received in a neat, organized manner pending their review and entry into the bond records.

##### **14.6.4 Types of Bond Related Documents**

The following are the most commonly received bond related documents:

- Cash receipts for bonds, taxes, and fees
- Coal Pool Bond Tax Returns
- “Coal Surface Mine Reclamation Fund, Fees, Bond and Reclamation Taxes Worksheet” forms
- Permit release notices (hardcopy or electronic)
- Permit transfer notices (hardcopy or electronic)
- Notice of address changes (hardcopy or electronic)
- Correspondences and memorandums
- Undelivered **DMME** mailings returned by the U.S. Post Office
- Bond/Tax/Fee refund requests

##### **14.6.5 Routing bond Related Inquiries at OFS**

All bond related inquiries shall be referred to the **FT**, or on the event of the **FT**'s absence to the **AM**. Inquiries concerning Bond Forfeitures shall be referred to the **ACT**, or in the event of the **ACT**'s absence to the **AM**.

#### **14.7.0 Quarterly Reconciliations of Cash Bond Balances Between DMME Bond Record Systems and CARS**

The **FT** shall complete a quarterly reconciliation of cash bond balances reported as per **DMME** internal bond records and those reported in **CARS** 1040, Option 4 for total for funds 0737, 0750, and 0751 under **GLA** 101. The reconciliation shall be completed and all required adjustments shall be identified by the **FT** and entered by the appropriate division employee within 10 working days following the receipt of the **CARS** 1040, Option 4 dated as of the last day of the quarter being reconciled.

##### **14.7.1 Obtaining Bond Record System Reports and CARS Reports Needed to Perform Required Quarterly Reconciliations.**

- 1) Within 5 working days following the end of the quarter, the **FT** shall obtain the quarter's bond activity using procedures set forth in the **Pool Bonding System User's Guide** (Attachment A) to generate reports (**DMM.REPR.06A**, **DMLR.REPR.06A**, &

DGO.REPR.06A) for each month of the quarter being reconciled. The **FT** shall retain these reports until the quarterly reconciliation is completed.

- 2) The **FT** will begin reconciliation of the generated reports and the available monthly CARS 1040, Option 4 reports of the quarter to be reconciled. Generally the first two months will be on hand for a complete reconciliation of those months. The **FT** will perform a preliminary reconciliation of the remaining month for which no CARS 1040, Option 4 report is available by using the latest weekly CARS 0402, Option B1. This will ensure the Bond Record System is up-to-date for participant listings.
- 3) Within 2 working days following its receipt at OFS.BSG, the **FT** shall obtain a copy of the third (last) month's CARS 1040, Option 4 report included in the quarter being reconciled. The report shall be dated as of the last day of the month being reconciled.

#### **14.7.2 Preparing the Reconciliation Report for Cash Bonds**

The **FT** shall prepare a worksheet that sets forth the balance of cash bonds, by Fund/Fund Detail, as reported in DMME's bond records and in CARS. The **FT** shall analyze the differences, if any, between the two records/reports and list each variance on the worksheet until the balances agree. If it appears that bond types are not in balance, the **FT** will run the **Bond Type Change Audit Report** (DMLR.BTPR.08) for the quarter to determine whether inappropriate changes to bonds may have occurred.

(See Attachment B – “Bond Status Report Reconciliation for Month, Year”, which satisfies this requirement.)

The **FT** shall retain copies of all documents and other supporting data involved in the differences/reconciliation with the worksheet for further reference and audit purposes.

#### **14.7.3 Entering Adjustments Resulting from Reconciliations to DMME Cash Bond Records**

The **FT** shall arrange with appropriate personnel for the entry of corrections and/or adjustments to the bond records. The **FT** shall provide clear, concise instruction to facilitate proper entry and shall follow up to confirm that all adjusting entry/entries have been made correctly.

#### **14.8.0 Verifying Certificates of Deposit and Surety Bonds Located in Bank Safety Deposit Boxes Against DMME Bond Records**

At the end of each fiscal year, and/or other times deemed necessary by the **FD**, the **FT**, **AS**, or another designated OFS employee, with the assistance of an employee assigned by the respective division head, shall verify that the bond documents reported in that division's bond records are in fact located in appropriate safety deposit boxes.

##### **14.8.1 Assignment of OFS Employees to Perform the Verification**

The **FT** shall perform all such verifications for the DMLR and DGO. The **AS** shall perform all such verifications for the DMM.

##### **14.8.2 Assignment of a Division Representative by the Respective Division Head**

In a timely manner, the **FD** shall request that the Managers of the DMLR, DGO, and DMM designate a division employee to represent them in each required verification of bond documents held in safety deposit boxes by their division. The person designated should be authorized to have access to the division's safety deposit box contents. The **FT** shall notify the divisions for assistance in the verification process.

##### **14.8.3 Performing the Required Verification**

- 1) Within 2 working days following June 30 of each fiscal year, and following any other cutoff date(s) determined by the **FD**, the **FT** shall obtain and retain the reports as set forth in 14.7.1.1. The **FT** shall deliver DMM's report to the **AS**.
- 2) The **FT** and the **AS**, with their respective designated division representative(s), shall perform the actual physical verification at the bank within 5 working days following the established verification cutoff date. The **FT** and the **AS** shall cause all clerical posting errors to be corrected and report all unexplained differences to the **FD** within 15 working days following the established verification cutoff date.
- 3) The **FD** shall immediately notify the respective division head, or designee, as to any unexplained differences discovered between their bond records and bond documents. At that time the **FD** shall request that the division head/designee arrange for an investigation into each difference and that the **FD** be notified of the results of those investigations.

#### **14.8.4 Entering Adjustments Resulting from Verifications to DMME Bond Records**

- 1) The **AS** shall coordinate with the appropriate DMM personnel to enter the necessary adjustments to DMM's bond records.
- 2) The **FT** shall coordinate with the appropriate DMLR and DGO personnel to enter the necessary adjustments to their bond records.
- 3) The **AS** and the **FT** shall provide clear, concise instructions regarding adjustments to ensure their proper entry into bond records.

#### **14.9.0 Refunding Cash Bonds**

All refunds of cash bonds shall be made in accordance with DMME Policies and Procedures 7.0.0.

#### **14.10.0 Establishing and Updating Participant's Records into the Pool Bond System and Recording Tax Returns (Receipts) into those Records**

##### **14.10.1 Establishing a New Participant's Record in the Pool Bond Record System**

DMLR will notify the **FT** of new participant's by sending the **FT** a copy of the completed form titled "**Coal Surface Mining Reclamation Fund, Fees, Bond, and Reclamation Taxes Worksheet**" for each. The **FT** shall confirm a new record in the system within 5 working days of receipt of the completed form.

##### **14.10.2 Updating/Changing an Existing Participant's Record in the Pool Bond Record System**

The **FT** shall verify changes to existing participant records in accordance with notification from DMLR or as approved by the **FD** within 5 working days from their receipt or before the end of the last day of a calendar quarter, whichever occurs first. Address changes will usually be requested by e-mail. A notice that a permit has been completed and is to be removed from active status will be requested through a memorandum/e-mail from the Permit Section. When a permit has been transferred from one operator to another, the notice to remove the previous existing permit record from active status is given by e-mail and a new permit record established as in 14.10.1. Whenever information received is not clear, the **FT** shall contact the person at DMLR who submitted the information for assistance.

##### **14.11.0 Notifying Participants Quarterly that Pool Bond Reclamation Taxes are Payable or Deferred**

##### **14.11.1 Authority Under Which Quarterly Notices to Pool Bond Participants are Required.**

Section 4 VAC 25-130-801.15 of the Coal Surface Mining Reclamation Regulations states that "The Division shall notify, in writing, each permittee participating in the Pool Bond Fund, at the



end of each calendar quarter, of those periods during which the reclamation taxes are applicable or deferred.” OFS has been assigned this duty on behalf of DMLR.

#### **14.11.2 Criteria for Determining When Pool Bond Reclamation Taxes are to be Collected or Deferred for a Calendar Quarter**

Section 4 VAC 25-130-801.14(a)(b) of the Coal Surface Mining Reclamation Regulations sets forth the criteria to determine whether reclamation taxes shall be collected or deferred for a given calendar quarter. Taxes shall be collected for a quarter if the unobligated balance (actual cash balance of the Fund less all outstanding obligations against it) of the Fund is less than \$2,000,000 and taxes were not deferred for the next preceding quarter, or when less than \$1,750,000 if taxes were deferred for the next preceding quarter. Taxes shall be deferred for a quarter when the unobligated balance of the fund is \$2,000,000 or more, or \$1,750,000 or more if taxes were deferred for the next preceding quarter. Deferment of taxes shall not apply to a participating permit until the **Commencement of Coal Production, Processing or Loading Anniversary Date** is one year or more. For further instruction concerning **Coal Surface Mining Reclamation Fund Procedures for Tax Collection** see **Attachment C**.

#### **14.11.3 Obtaining Information Required from DMLR to Determine Unobligated Pool Bond Fund Balances**

The FT shall obtain the amount of unliquidated obligations outstanding against the Fund as of the last day of each calendar quarter within 2 working days following the quarter close from the **DMLR Contracting Coordinator**. To facilitate the receipt of this information, the **FT** will contact the **CC** and remind them of the need for obtaining the information timely.

#### **14.11.4 Determining Unobligated Pool Bond Fund Balance at End of Calendar Quarter**

Within 1 working day following the receipt of the amount of unliquidated obligations from the **CC**, the **FT** shall determine the unobligated balance by deducting the reported amount of obligations from the Fund balance in GLA 101 under the 0753 Fund as reported in the last available CARS 0402 Option B1 Report. The **FT** shall determine whether taxes are applicable or deferred for the quarter, using the criteria set forth in 14.11.2 above.

#### **14.11.5 Preparing the Quarterly Notices to Pool Bond Participants**

After having determined whether taxes will apply or be deferred, the **FT** shall prepare the appropriate notice to be sent to the Fund participants under the signature of the DMLR Designee or the **FD**. The **FT** shall deliver the notice(s) for signing. The **FT** should be prepared to demonstrate how the unobligated Fund balance was determined.

#### **14.11.6 Mailing Quarterly Notices to Pool Bond Participants**

- 1) On or about the last day of each quarter, but after all updates and/or changes have been made to the participants’ records, the **FT** shall prepare the address labels for all participants in accordance with the Pool Bonding System User’s Guide (**Attachment D**).
- 2) Within 5 working days following the close of the calendar quarter, the **FT** shall attach the notices to blank Coal Surface Mining Reclamation Fund Tax Reporting Forms. The **FT** shall insert the notices and forms into envelopes, affix the labels to the envelopes, and deliver them to the mailroom for postage and mailing to each participant by the **OSS**.

#### **14.11.7 Handling Undelivered Notices**

The **FT** shall consult with DMLR’s Permit Section as to actions to be taken regarding all notice mailings returned by the United States Postal Service as being undeliverable. The **FT** shall hold undelivered notices until instructions are received from DMLR.



#### **14.12.0 Verifying Information Reported on Quarterly Reclamation Tax Returns and Correcting Errors**

##### **14.12.1 Verifying Reported Permits are Valid Participants in the Fund**

The **FT** shall verify that each permit reported on the tax return is a valid participating permit and that a record has been established in the system. When the system indicates that a reported permit is not a valid participant, the **FT** shall contact DMLR's Permit Section for confirmation. Upon confirmation that a permit **is not** a valid participant and the operator should not have paid the tax received the **FT** shall arrange for the refund in accordance with 14.13.0.

##### **14.12.2 Entering Tax Return Information into the Pool Bond System and Verifying the Arithmetic for Correctness**

The **FT** shall enter the tax return information into the system in accordance with the Pool Bonding System User's Guide (**Attachment D**). Upon entry of tonnage, the system automatically calculates the rate by ton. The **FT** shall then visually verify that the calculated total equals the tax paid and that the amount of receipt written corresponds with the amount of tax due. After entry has been completed, the **FT** shall file the returns.

##### **14.12.3 Correcting Errors Discovered on Reclamation Tax Returns**

Whenever feasible, the **FT** shall attempt to make necessary corrections by phone. When phone corrections are not feasible, the **FT** shall send/fax/email a blank form to the participant with written instructions that a revised return be submitted with payment of any additional tax that may be due. The **FT** shall follow-up on all revised return requests and shall notify DMLR's Reclamation Services Section when they are not received with 15 days.

##### **14.13.0 Refunding Reclamation Tax Overpayments**

The **FT** shall arrange for all refunds of Reclamation Tax overpayments to be made in accordance with OFS Policies and Procedures 7.0.0 (Revenue Refunds). Substantiation of the overpayment must be attached to the Revenue Refund Request.

##### **14.14.0 Entering Tax Return Information in the Pool Bond System**

##### **14.15.0 Handling/Reporting Non-Compliance with Tax Return Submission Requirements**

The **FT** shall maintain a formal activity log developed at the time quarterly notices to pool bond participants are generated. The log shall contain the quarter ending date, permittee name, permit number, date taxes received, date and time contact is made with non-compliant permittee, representative of non-compliant permittee contacted, and an explanation (if necessary).

Upon receipt of Reclamation Taxes and the Coal Surface Mining Reclamation Fund Tax Reporting Form by DMLR, the appropriate personnel will receive funds in accordance with OFS Policies and Procedures 9.0.0 and forward the forms to the **FT** for entry into the system and recording to the activity log.

The **FT** will review the activity log within 45 days following the close of each calendar quarter for which reclamation taxes were collectible. The **FT** will contact by phone appropriate representatives of the permits that are non-compliant. The **FT** will notify the representatives they have 10 working days in which to submit the form and any taxes due.

Those forms and taxes received after notification will be handled in the same manner listed above. Permits that remain non-compliant after notification by the **FT** and do not respond within the 10 working days will be forward to the Reclamation Services Manager for appropriate action.

**14.16.0            Quarterly Reconciliation of Coal Pool Bond Fund Balances Between Pool Bond Record System and CARS**

The **FT** shall complete a quarterly reconciliation of cash bond balances reported as per DMME's Coal Pool Bond Fund records and those reported in CARS 1040, Option 4 for total for fund 0753 under GLA 101. The reconciliation shall be completed and all required adjustments shall be identified by the **FT** and entered within 10 working days following the receipt of the CARS 1040, Option 4 dated as of the last day of the quarter being reconciled.

**14.17.0            Retention of OFS Bond System Records**

- 1)     The **FT** shall file all pool bond transaction records by operator/permittee in the Pool Bond File and all other bond type transactions in appropriate files as established at OFS.
- 2)     The **FT** shall retain all reconciliation work papers and other documents used in the reconciliation process.
- 3)     All bond transaction files and reconciliation work papers shall be maintained in a neat, logical manner and shall be promptly available for audit purposes and for use by others as needed.